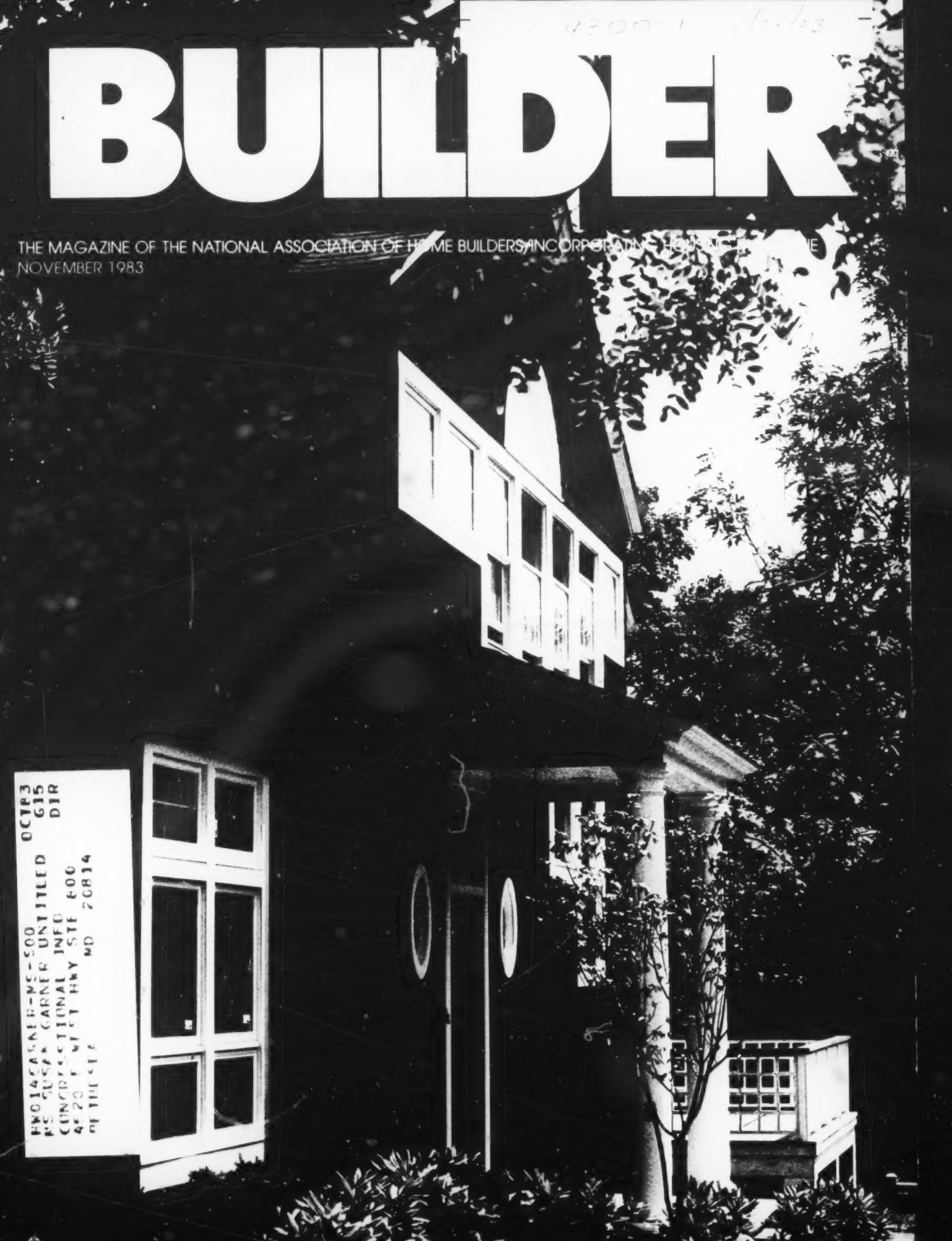


BUILDER

THE MAGAZINE OF THE NATIONAL ASSOCIATION OF HOME BUILDERS, INCORPORATING HOUSING TODAY
NOVEMBER 1983

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BUILDER

VIEWS

- 5 About Building
- 12 Outlook
- 16 Money
- 20 Washington
- 26 Trends

DEPARTMENTS

- 8 Mail
- 86 Sketchbook
- 93 NAHB Action
- 100 New Products
- 113 Ad Index
- 114 Specs

NEWS

- 29 Firms rush to go public while market is hot
- 30 U.S. Home drives to corner market for manufactured homes
- 34 Congress shuts out housing for the third straight year
- 36 To save energy, two stories are better than one
- 36 HOW cuts premiums, pays refunds
- 40 S&L task force takes policy makers to task
- 44 Leasing collectors cuts bills and upfront costs
- 44 Sprinkler ordinance sparks approval
- 46 Report recommends using model codes
- 46 HOMAC introduces two more programs
- 48 Proposed bond issue would help Texas veterans buy homes
- 48 Energy costs up, usage down



52—UGLY DUCKLINGS

Remember the fairy tale? It had a happy ending, as do the stories of six dreary, old buildings that were extensively remodeled and almost miraculously transformed into delightful—and successful—developments.

66—THINK SMALL

The final part of a four-part series on how to downsize housing shows ways to make sure even compact kitchens and baths have big impact. Prepared with William Devereaux, AIA, Berkus Group Architects.

72—POST MODERN WHAT?

The rage among a small but influential group of architects is causing a raging debate as well. To date, postmodernism's reaction to the sterility of modern design has focused on major commercial buildings. But now, production housing is coming under its influence.

(Cover: Saint Andrew's Golf Club. Photo: Robert A.M. Stern.)

80—GROUND BREAKERS

Builder David Easton doesn't just work from the ground up. He actually builds custom houses with the soil he excavates on a building site. While this technique, called rammed earth construction, may be ancient, Easton's high-priced houses are totally up to date and contemporary in design.

STARTS: A PLEASANT SURPRISE

Michael Sumichrasi
NAHB Chief Economist

That housing starts were quite strong throughout the summer, in spite of a run-up in interest rates, surprised a lot of people. But don't be surprised if housing starts hold their own in the future, which is what I think will happen, provided interest rates decline at least moderately.

Of course, starts won't increase dramatically from month to month as they did during the first part of this year. But they will continue to be strong—in the range of 1.5 to 1.8 million units annually. Starts will slacken toward the end of this year as the impact of higher mortgage rates takes effect. Still we will end up with more than 1.6 million starts. And next year should see about the same number of starts—that is, if interest rates soften.

When builders are asked what they think their sales and starts will be next year, the inevitable response is: "That depends on interest rates." But most seem optimistic and are expecting some easing in interest rates.

What is behind the strong housing recovery?

■ The main reason for the surge is, of course, the fact that mortgage interest rates dropped from a high of 18 percent to a short-lived low of 11.5 percent. That alone stirred traffic and gave buyers the confidence to enter the housing market. That wasn't the case during the previous three years.

■ Lots of these prospects were first-time home buyers. That's confirmed by a survey of 800 builders we just completed. The survey indicated that almost half of the units being sold were being purchased by first-time buyers. This compares with 35 percent in the same period a year ago.

■ State tax-exempt revenue bonds also helped a great deal. There was a flurry of activity in the period between June and August, very likely in expectation of the enactment of the sunset provision contained in the legislation authorizing these bonds. That provision would put an end to the bonds by the end of this year.

Last year, the total volume of single-family state tax-exempt revenue bonds was \$5.1 billion. In addition, another \$3 billion was issued by localities.

HOUSING STARTS BY STATE WITH PERCENT CHANGES, 1983-1984

In thousands of units

	1983	1984	Percent change 1983-84
Alabama	16.1	14.3	-11.2
Alaska	12.5	10.6	-15.2
Arizona	61.5	59.6	-3.1
Arkansas	11.3	10.2	-9.7
California	135.7	133.9	-1.3
Colorado	47.7	50.2	5.2
Connecticut	16.6	20.1	21.1
Delaware	3.7	4.5	21.6
District of Columbia	0.2	0.8	300.0
Florida	162.0	168.0	3.7
Georgia	67.4	77.8	15.4
Hawaii	7.1	7.9	11.3
Idaho	3.7	3.4	-8.1
Illinois	25.7	20.8	-19.1
Indiana	15.8	15.9	0.6
Iowa	8.4	7.9	-6.0
Kansas	14.7	14.2	-3.4
Kentucky	13.3	14.3	7.5
Louisiana	35.9	38.1	6.1
Maine	5.4	7.0	29.6
Maryland	34.8	33.5	-3.7
Massachusetts	26.6	30.4	14.3
Michigan	18.5	16.3	-11.9
Minnesota	25.4	26.3	3.5
Mississippi	10.6	10.6	0.0
Missouri	20.1	18.1	-10.0
Montana	2.4	2.3	-4.2
Nebraska	6.4	6.1	-4.7
Nevada	14.4	14.2	-1.4
New Hampshire	8.4	9.0	7.1
New Jersey	37.7	44.2	17.2
New Mexico	10.5	11.8	12.4
New York	38.0	46.1	21.3
North Carolina	46.3	52.5	13.4
North Dakota	4.6	3.6	-21.7
Ohio	25.4	23.8	-6.3
Oklahoma	52.7	55.4	5.1
Oregon	9.4	10.4	10.6
Pennsylvania	39.0	47.4	21.5
Rhode Island	3.8	4.3	13.2
South Carolina	25.9	27.9	7.7
South Dakota	2.6	2.6	0.0
Tennessee	26.9	26.0	-3.3
Texas	351.9	352.6	0.2
Utah	11.0	9.8	-10.9
Vermont	6.4	7.7	20.3
Virginia	48.1	49.5	2.9
Washington	25.1	22.1	-12.0
West Virginia	3.3	3.9	18.2
Wisconsin	16.3	16.0	-1.8
Wyoming	3.8	5.0	31.6

Notes: Due to rounding, details may not add up to totals. 1983 and 1984 data are from August 1983 NAHB Forecast.

Sources: Bureau of the Census; NAHB Forecast Service

This summer state bond issues were running at about \$1.5 to \$2 billion a month. Every \$1 billion in money finances about 20,000 units, of which about half are new units. So, tax-exempt revenue bonds represent a big boost to housing.

State tax-exempt revenue bonds carry lower mortgage rates, generally in the 10.5 to 10.9 percent range. This spring, when interest rates dropped, tax-exempt revenue bonds started to lose their attraction. At that point the FHA rate was down to 11.5 percent. But with the run-up in rates, bonds got popular again. In May there were 6 issues, then 11 in June, 12 in July and 22 in August.

■ Just as the revenue bonds lost some of their popularity, so did the use of builder buydowns. However, when FHA rates jumped to 13.5 percent, builders were forced again to start using buydowns. In early September, according to our survey, 26 percent of the builders were using buydowns. That helped both sales and starts.

■ Demand for housing has been surprisingly strong. The down time from 1980 to 1982 created a backlog of demand; prospects started coming out and looking at new and existing homes as soon as rates began to fall.

Builders responded by introducing lower-priced housing for primarily first-time buyers. In general, the strategy worked. While the recovery has been strong, it also has been uneven. Some states and regions have outperformed others. For example, the highest percentage of growth this year is expected in the West (67.5 percent), followed by the Northeast (55.3 percent), the South (54 percent) and the North Central region (24.1 percent).

The table shows our 1984 forecast for housing starts by states, assuming a total of 1.66 million starts. Texas will continue to lead the nation with more than 350,000 starts, followed by Florida and California. These three states will account for 40 percent of all new starts this year. In fact, Texas alone will take a 22-percent share. States with the largest percentage increases in starts will be Wyoming, Maine, Pennsylvania and New York. ☐

BUSINESS

FIRMS RUSH TO GO PUBLIC WHILE MARKET IS HOT

Ask Don Parr, vice president of finance for General Homes, why the fourth largest home building company in the United States (\$350 million in revenues this year) went public in June, and he comes right to the point:

"It's been 10 years since housing stocks have been at these levels. It looked like a good opportunity to raise new capital." By issuing 3,500,000 shares of stock to the general public, General Homes, headquartered in Houston, raised more than \$60 million which it is using to pay off debt and acquire land.

George Writer, chairman and chief executive officer of the Writer Corporation (\$70 million in annual sales) also saw these as good times for raising additional capital. Although his Denver-based company has been publicly held since 1972, it went back to the public in March 1983, issuing 790,000 new shares of stock and raising \$11 million to strengthen the company's capital position and provide for future growth.

General Homes and Writer Corporation are not alone. This has been the year for housing companies to go public or, if they were publicly held, go back to the capital markets with a re-issue.

But going to the public, which opens the way to sources of equity, is not for every building company. Although it's a chance to get the extra capital needed to make the jump from a mom-and-pop business to a big-league enterprise, there are significant drawbacks.



George Writer, president of the Writer Corporation, took his company back to the capital markets with a reissue of stock and raised \$11 million.

Going public means doing business in a fishbowl. "Naked in the rain" is the way Stan Ross, co-managing partner of Kenneth Leventhal & Co., a CPA firm specializing in real estate, put it. Everything the business does has to be disclosed, so everybody knows what the company is doing. The company also has to follow standardized accounting and reporting methods, be able to forecast earnings and issue quarterly reports.

"The requirements for public reporting during and after going public are considerable," Parr noted. "It was not a problem for us—our managing, accounting and reporting systems all were in place—but I could see where a smaller or newer company might have difficulties pulling together data and information."

Another consequence of going public is that regulatory bodies become involved in all aspects of the business. "You're subject to laws and regulations from those of the Securities and Exchange Commission (SEC) and the Fed-

eral Trade Commission (FTC) to the Foreign Corrupt Practices Act," Ross noted. And going public makes a company vulnerable to takeovers, litigation and proxy fights.

In addition, the housing industry has some peculiarities that do not lend themselves to a Wall Street mind-set. As one building company president put it, "When somebody calls you for a quarterly earnings report you can't say it rained so the contractor didn't show up."

Dealing with Wall Street is, reported Writer, not only difficult but dangerous. When his company went public in 1972 "we responded to the investment community. They didn't know about our business, but we listened to them. We shouldn't have."

This time around, Writer said, the company is listening to its own drummer. "We're now making decisions based on what will be best for the company three or four years down the road—not what will make the next quarter look good."

The size of a company is also a factor. Experts say sales of at least \$50 to \$70 million a year (700 to 1,000 home sales a year) is a minimum. But size has to be accompanied by desire.

"I have major clients who do five times the necessary amount of business, and they would never think of going public," Ross said. "On a personal level they don't want it. They're private, and they want to run their business that way."

Desire is a necessary commodity because going public takes considerable time, effort and money. General Home's Parr estimated that it took five to six man-years of work in a four to five-month period to assemble data and complete procedures necessary for taking the company public. The costs came to \$1.3 million.

Despite the drawbacks, many building companies are toying with the idea of going public. A major impetus is the bullishness of Wall Street.

During the first half of 1983 many housing stocks were trading at such heady prices that at least one expert, Lewis Goodkin, Goodkin Research Corporation, declared that they were "so

HOME BUILDING COMPANIES THAT WENT PUBLIC IN 1983

Company	When went public	Number of shares	Offering price	October price
General Homes	June	3,500,000	19.0	14.25
Clayton Homes	June	1,750,000	16.0	13.25
U.S. Capital	July	1,555,000	13.5	11.00
Manufactured Homes	August	570,000	8.0	5.50
Hovnanian Enterprises	September	950,000	13.5	11.50

overvalued as to be unconscionable."

U.S. Home Corporation, for instance, which had a five-year price-earnings ratio of 18.5, was at 30.7 this summer. Moreover, housing stocks were outperforming the market. From their August 1972 low to their summer peak, the four housing stocks that make up investment firm Dean Witter Reynolds' housing index were up 170 percent while the Standard and Poor's 400 index was up 68 percent.

In addition, the new issue market in general was hot. In August alone 106 companies made their debut, raising a total of \$1.36 billion. That was the fifth time in history that a monthly new issue volume topped a billion—the other times were March, May, June and July 1983.

All that activity was explained by Kenneth Leventhal, Kenneth Leventhal & Co., this way: "Any time the value of shares is bid up to a price-earnings ratio of 20, going public becomes the cheapest capital obtainable."

Many home building companies also saw things that way and took advantage of investor interest. At least five—more than in any year in the last 10 years—went public. In addition to General Homes, they were: Clayton Homes, Maynardville, Tenn., with an offering of 1,750,000 shares; U.S. Capital, Columbia, S.C., with an offering of 1,555,000 shares; Manufactured Homes, Winston-Salem, N.C., with 570,000 shares; and Hovnanian Enterprises, Red Bank, N.J., with 950,000 shares.

And by October several other companies had filed new issue or reissue registration statements with the SEC, including Olin American, Casselberry, Fla.; Arvida Corporation, Boca Raton, Fla.; Fairfield Communities, Little Rock, Ark.; Del E. Webb Development, Sun City, Ariz.; and Universal Development, Chicago.

Given the heady times and numerous success stories it is not surprising that at least a dozen other housing companies are seriously considering either going public or issuing additional stock. But the market may not be as hospitable for them.

"There's still a lot of interest out

there," reported Barbara Alexander, housing analyst with the Wall Street firm of Smith Barney Harris Upham & Co. But Alexander, like most other experts, had a qualified view of the current marketplace.

The new issue market in general has entered a cooling-off period. New issues are not jumping into immediate premiums as they did earlier in the year.

"It's not as good right now," said Norman Fosback, editor of *New Issues*, a Fort Lauderdale, Fla., newsletter specializing in first-time stock sales to the public. "When there's a boom and a big demand for new issues, companies can ask higher prices. Right now they're asking lower prices. But you have to put that in perspective."

"Even though the situation is not as good as earlier this year," Fosback continued, "it's still better (with the exception of the first half of 1981) than at any time since 1972. So, by long-term standards, it's still a very, very good time for new issues."

For housing companies in particular, the times are slightly less promising. "The stock market has softened but it's still strong," Ross noted. "Real estate companies are still more in favor than they have been in a long time. If you define good as acceptability in the marketplace, a good secondary market and a positive attitude toward housing companies, then it's not as good as earlier this year—but it's still good."

Alan Wapnick, Dean Witter Reynold's housing analyst, is not as optimistic. "Like other highly cyclical industries, housing's sharp action in stock prices is compressed into a 6 to 12-month period that happens every 4 to 5 years. It is late in housing's cycle to go public now. Portfolio managers view housing stocks as last year's story. It's not the best time, but it will be even worse 6 months from now."

A similar situation exists for reissues, although not to as great an extent. According to Wapnick, "Even for an established company it's tougher to sell new stock now than it was six months ago, but it's easier than for a new entity."

Penelope Lemov, Business Editor

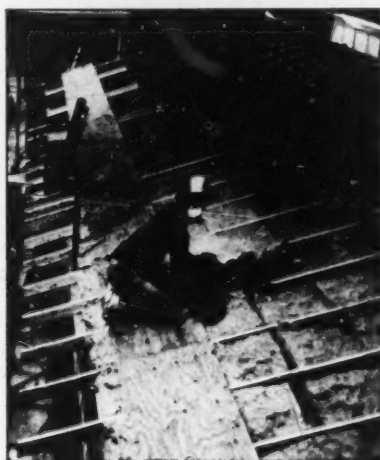
MARKETING

U.S. HOME DRIVES TO CORNER MARKET FOR MANUFACTURED HOMES

U.S. Home Corporation, the giant home builder based in Houston, has entered the manufactured housing business with a bang, and plans to become the largest manufactured housing firm in the U.S.

For \$28 million it has acquired Brigadier Homes Corporation, the seventh largest mobile home manufacturer in the country, and Interstate Homes, the tenth largest modular home manufacturer in the U.S.

Brigadier, headquartered in Houston, has 13 manufactured housing plants throughout the Southeast and Southwest. In 1982 it delivered 8,064



U.S. Home is buying up manufactured housing factories such as this 250,000-square-foot plant in Salt Lake City which can produce as many as 26 modular homes and 50 mobile homes a week.

single and multisectional homes priced from \$7,500 to \$40,000. Total sales were \$104,850,500.

Interstate, based in Salt Lake City, serves a seven-state area and boasts one of the largest, fully automated assembly operations for prebuilt homes, mobile homes, modular living units and motel units. In 1982 sales of its homes, priced from \$33,000 for a

see U.S. HOME p. 34

ACTION

NAHB

IN SPITE OF RATES, BUILDERS STILL OPTIMISTIC

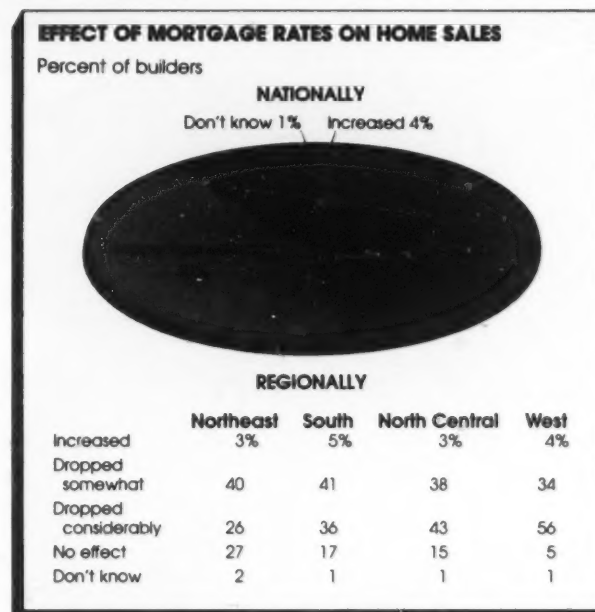
Many home builders were hard hit by interest rate increases during the summer, but most now believe the market will improve through the remainder of this year and at least through the first quarter of next year.

This assessment is based on telephone surveys of 800 NAHB members, a poll of NAHB's executive committee and a mail survey of an additional 220 members. The surveys took place in September.

As expected, the builders reported that sales of new homes dropped sharply after interest rates rose last summer. They base their optimism about the near future on the belief that interest rates will drop slightly.

The survey indicated that on average builders expect to start 38 percent more homes this year than last, but they also expect starts during the second half of this year to decline by 25 percent from the starts level during the first half of the year.

"This report provides the facts and figures supporting our contention that a robust and sustained recovery is by no means certain as long as mortgage interest rates remain at their currently high levels," said NAHB President Harry Pryde. "From the



evidence provided by this survey, there can be little doubt that housing is greatly improved from the depressed production levels of 1981 and 1982, but lower federal deficits in tandem with a more accommodative and less erratic monetary policy are needed to carry this recovery forward."

Comments volunteered by builders who participated in the survey highlighted their concern with interest rates. Many said that what is needed is "stability" in interest rates, so that both builders

and consumers know what to expect.

Several respondents also noted that the lagging resale market is the real problem. That "causes stagnation in the new home market," one builder said.

Another builder in Abilene, Tex., said that he is doing well selling higher-priced housing, but feels very "insecure" about the future. An Indiana, Pa., builder put it more succinctly: "If rates go up again, people who survived the last time will not make it again."

Other survey findings:

■ Only about one-fourth of home builders were buying down mortgage rates at the time of the survey. The percentage of home builders offering buydowns was highest in the West (34 percent).

■ Builders rate the condominium market weaker than markets for single-family homes and townhouses. Builders expect the condominium market to stay about the same this year and for the first quarter of 1984, with some improvements in the South and East and with small declines in the Northeast and North Central regions.

■ Market conditions for townhouses were said to be slightly weaker than the market for single-family houses, with only minor changes expected for the remainder of the year and the first three months of 1984.

■ On average, builders are paying 1.5 points above prime for construction loans. Those builders whose construction loan interest rate is not tied to the prime rate were paying an average interest rate of just under 14 percent.

■ Builders expect some decline in sales and settlements during the final quarter of this year, compared with the period of June to August 1983. ☐

LOCALS AT WORK

■ For the past five years, the Seattle Master Builders Association has used an unusual method to raise money for its Political Action Committee: a surplus building materials sale. The sale attracts consumers who are looking for doors, lumber, window frames and other materials that builders have left over from projects. The 1983 sale, held during September, was a sellout, with

more customers than materials. The sale raised over \$5,000 for the HBA's PAC.

■ The Home Builders Association of Virginia (HBAV), in Richmond, urged all affiliated organizations to support National Housing Week with a state-wide blood drive called "Building Health in '83." HBAV President Randolph R. Rinehart said that the blood drive is a good way to "show nonmembers that home builders and associates are civic-minded and an excellent group to asso-

see LOCALS p. 95